

## BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Investigation into affiliated	)	DOCKET NO. 860001-EI-G
cost-plus fuel supply relationships	)	ORDER NO. 24176
of Florida Power Corporation.	)	ISSUED: 2-28-91
	)	

The following Commissioners participated in the disposition of this matter:

THOMAS M. BEARD, Chairman  
 BETTY EASLEY  
 GERALD L. GUNTER  
 MICHAEL MCK. WILSON

ORDER GRANTING FLORIDA POWER CORPORATION'S  
MOTION FOR RECONSIDERATION

In February, 1986, the Commission opened Docket No. 860001-EI-G for the purpose of investigating the affiliated cost-plus fuel supply relationships between Florida Power Corporation (FPC) and Tampa Electric Company (TECO) and their respective affiliated fuel supply corporations. In February, 1986, the Commission established Docket No. 860001-EI-G in Order No. 15895 for the purpose of determining why FPC's cost to transport coal by its affiliated waterborne system exceeded its costs to transport coal by non-affiliated rail. In September, 1987, the Commission issued Order No. 18122, which removed TECO from Docket 860001-EI-G, established Docket No. 870001-EI-A for hearing the TECO issues, consolidated the two FPC issues for hearing in Docket No. 860001-EI-G and closed Docket No. 860001-EI-F.

By Order No. 18982, issued on March 11, 1988, the Commission determined to bifurcate the hearings in this docket on (1) the policy issue of whether a market price standard should be imposed on the recovery of costs for goods and services purchased from affiliated companies and (2) the separate issue of whether any of the monies FPC had recovered through its fuel and purchased power cost recovery clause for goods and services purchased from affiliates from 1984 to date had been imprudently or unreasonably incurred and should, therefore, be refunded to its customers. Hearing on the policy issues in this docket were held on May 11-13, 1988. Hearings on the prudence issues in this docket were held December 14-16, 1988 and April 19, 1989.

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Staff's recommendation on the policy issues was considered at the Commission's September 6, 1988 Agenda Conference. As stated in Order No. 20604 issued January 13, 1988, the Commission determined that affiliated coal purchases should be priced at market price for recovery through the utilities' fuel cost recovery clauses and that affiliated coal transportation and handling services also should be priced at "market" where it was reasonably possible to construct a market price for the goods and services being considered. Staff was directed to conduct workshops amongst the affected parties for the purposes of determining how best to establish and implement market pricing mechanisms.

Workshops with the parties were held on March 17, March 30, and April 27, 1989. Several market methodologies were discussed; however, the parties could not reach an agreement on one specific market methodology. In Order No 20604, the Commission ordered that if the parties are unable to agree upon market methodologies, the Commission would impose such methodologies it deemed to be appropriate. Since agreement was not reached, Staff presented a recommendation at the October 17, 1989 Agenda Conference. Order No. 22401 was issued January 25, 1990. On February 2, 1990, Occidental Chemical Corporation filed a request for oral argument. Occidental's request was granted by Order No. 22888 issued May 4, 1990. Oral arguments were held June 27, 1990. The Commission resolved all but one of the issues raised in FPC's motion for reconsideration at the August 21, 1990 Agenda. We now consider the last issue that is to be resolved: whether an F.O.B. mine coal price or a delivered coal price should be used to create an index and whether the resulting market price regulator should be applied to Powell Mountain's F.O.B. mine price or the delivered price.

After considering the positions of each of the parties, we directed Staff to list various indexing methodologies available and to discuss the pros and cons of each method. Staff presented the following four methodologies for our consideration.

1. A delivered price index regulating the delivered price.
2. A delivered price index regulating the F.O.B. mine price.
3. A delivered price index regulating the average of the delivered price and the F.O.B. mine price.
4. An F.O.B. mine price index regulating the F.O.B. mine price.

It was not the purpose of this proceeding, nor do we think it is now appropriate to use a market based index to regulate the price paid to unaffiliated providers of transportation services. Regulating the price paid to unaffiliated companies would only be

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appropriate if the utility was found to have acted imprudently in its dealings with the unaffiliated company and this imprudence would otherwise cause inappropriate costs to be borne by the ratepayers. Method 1 and method 3 proposed by staff would regulate the price paid for unaffiliated transportation services. We, therefore, do not feel that method 1 or method 3 is appropriate.

Method 4 uses an index created from F.O.B. mine information available from FERC. This F.O.B. mine index would be applied to the Powell Mountain F.O.B. mine price. It does not regulate the price paid for unaffiliated transportation services. This information is collected by FERC on the FERC Form 580 every other year. In addition, much of the information contained on the individual FERC Form 580 is confidential and the Commission would have to rely on FERC to provide a weighted average market price. We are of the opinion that it is not appropriate for an ongoing methodology to contain such a time lag. Nor do we think it is appropriate to not have access to the data from which the index would be created. We, therefore, do not feel that method 4 is appropriate.

Method 2 uses a delivered price index to regulate the F.O.B. mine price. This index would be based on the weighted average delivered price of contract compliance coal produced in B.O.M. Region 8 to all electric utilities as reported on the FERC Form 423. The F.O.B. mine price index would be applied to a 1987 base F.O.B. mine price of 171¢ per mmBtu. It does not regulate the price of an unaffiliated transaction. Staff suggests that this method is inferior because the index is comprised of F.O.B. mine prices and transportation costs and would be applied to an F.O.B. mine price only. Staff likens this to comparing apples to oranges. We disagree. The purpose of an index is to indicate the direction and magnitude of price movements. The index need not be created from prices with an identical composition as the price to be regulated. The index must only reflect appropriate price changes. For example, we have used the Consumer Price Index (CPI) as an index to describe various costs in utility regulation. The CPI is based on a typical consumer's market basket. Few of the items in this market basket are actually purchased by utilities. In addition, testimony in this proceeding suggests that it is appropriate to use an index based on delivered prices to regulate the F.O.B. mine price of Powell Mountain coal. We choose to adopt method 2. We believe this index best tracks FPC's costs.

In consideration of the foregoing, it is

ORDERED by the Florida Public Service Commission that Florida

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Power Corporation Motion for Reconsideration is granted and we approve a market price methodology where a 1987 base F.O.B. mine market price of 171 ¢/MMBtu would be escalated by an index generated from the delivered price of comparable quality contract coal produced in B.O.M. Region 8 as reported on the FERC Form No. 423.

By ORDER of the Florida Public Service Commission, this  
28th day of February, 1991.

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STEVE TRIBBLE, Director  
Division of Records and Reporting

( S E A L )

by: Kay J. J. J.  
Chief, Bureau of Records

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the

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First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of

Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900 (a), Florida Rules of Appellate Procedure.